

Message Text

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ACTION SS-25

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C O N F I D E N T I A L CAIRO 14513

EXDIS

E.O. 11652: GDS
TAGS: ETRD, EINV, EG
SUBJECT: FORD INVESMENT PROJECT

REF: (A) CAIRO 14321, (B) CAIRO 14386

1. SUMMARY: FORD REP. OUROUSSOFF TELLS US HIGHER INVESTMENT COUNCIL HAS APPROVED PRINCIPLE OF TARIFF PROTECTION FOR FORD PROJECT. EXAC AMOUNT REMAINS TO BE NEGOTIATED, BUT OUROUSSOFF CONVINCED THAT CURRENT SIGNALS INDICATE COMPANY WILL GET WHA IT WANTS ON THIS ISSUE. GOE IS INSISTING THAT FINAL RETAIL PRICE OF JOINT VENTURE'S TRUCKS NOT BE HIGHER THAN THAT OF THOSE PRODUCED BY NASCAR, BUT OUROUSSOFF SAYS FORD HAS ALREADY AGREED TO THIS AND CONDITION POSES NO OBSTACLE. OUROUSSOFF BELIEVES WAY NOW OPEN TO FINAL RESOLUTION OF MAJOR OUTSTANDING DIFFERENCES DURING SEPTEMBER 10 WILLIAMS/FREDERICKS VISIT. END SUMMARY.

2. FORD REP. OUROUSSOFF CALLED ON AMBASSADOR AUGUST 30 AFTER DISCUSSION WITH INVESTMENT AUTHORITY DEPUTY CHAIR-AN EL NAZER ON DICISIONS TAKEN BY GIGHER INVESTMENT COUNCIL (SEE REFTEL A) WITH RESPECT TO FORD INVESTMENT
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PROPOSAL. OUROUSSOFF SAID L NAZER TOLD HIM THAT COUNCIL HAD APPROVED TARIFF PROTECTION FOR FORD PROJECT IN PRINCIPLE, BUT PRECISE AMOUNT WOULD REMAIN TO BE NEGOTIATED. GOE WAS ALSO POSING CONDITION THAT PRICE OF TRUCKS TO BE PRODUCED BY JOINT VENURE NOT EXCEED PRICES OF SIMILAR VEHICLES PRODUCED BY GOE'S EL NASR AUTOMOTIVE CO. (NASCAR).

3. OUROUSSOFF SAID HE FELT CONFIDENCE FROM TONE AND SUBSTANCE OF DISCUSSION WITH EL NAZER THAT TARIFF ISSUE, THOUGH NOT NOW FULLY RESOLVED, WOULD BE WORKED OUT TO SATISFACTION OF COMPANY. EL NAZER SADI, FOR EXAMPLE, IN RESPONSE TO DIRECT INQUIRY FROM OUROUSSOFF, THAT HE WAS SURE GOE AND FORD TEAM COULD WRAP UP THEIR MEETINGS WITHIN TWO DAYS (SEPTEMBER 10 AND 11) TO ENABLE WILLIAMS/FREDERICKS TO KEEP OTHER COMMITMENTS. FIGURES WOULD ALL HAVE TO BE REDONE IN ANY CASE BY TECHNICAL EXPERTS, BASED ON RESULTS OF GOE/FORD CONVERSATIONS. WITH RESPECT TO PRICE ISSUE, OUROUSSOFF SAID COMPANY HAD ALREADY AGREED MATCH NASCAR'S PRICES, AND HE FORESAW NO PROBLEM ON THIS GOE CONDITION.

4. OUROUSSOFF SAID GOE ALSO WANTED FORD TO AGREE TO MAKE ENOUGH TRUCKS AVAILABLE FOR LOCAL MARKET TO PERMIT EGYPTIANS TO CITE THIS AS AN ELEMENT IN THE BENEFIT PROJECT WAS BRINGING TO COUNTRY. OUROUSSOFF REPLIED THAT HALF OF PLANNED TRUCK PRODUCTION OF 10,000 VEHICLES WAS ALREADY EARMARKED FOR EGYPT AND MARKET STUDIES HAD INDICATED THIS TOTAL WAS, IF ANYTHING, PROBABLY MORE THAN COULD BE ABSORBED LOCALLY. EL NAZER SAID NOT TO WORRY; ANY SURPLUS TRUCKS WOULD BE TAKEN BY THE MILITARY.

5. OUROUSSOFF WELCOMED DIVISION OF EQUITY SHARES THAT
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GOE WAS NOW PROPOSING. EL NAZER HAD TOLD HIM EGYPTIANS WANTED EACH OF PARTIES (GOE, FORD, AND OTHER ARAB INVESTORS) TO HAVE A ONE-THIRD SHARE IN THE PROPOSED EQUITY OF \$10 MILLION. THIS WOULD BE A LARGER PARTICIPATION BY GOE THAN ORIGINALLY PLANNED, BUT WOULD PERMIT EGYPTIANS TO SHOW A REAL STAKE IN THE ENTERPRISE, WHICH WOULD BE USEFUL IN CONNECTION WITH BOYCOTT REMOVAL.

6. RECALLING THAT FORD HAD AGREED TO SET UP A MARKETING COMPANY FOR THE MIDDLE EAST IN EGYPT, WHOSE REVENUES FROM SALES IN THE ENTIRE AREA COULD BE TAXED BY GOE, OUROUSSOFF SAID EL NAZER HAD VOICED SUSPICION THAT COMPANY MIGHT ATTEMPT EVADE TAXES BY UNDER-REPORTING ITS SALES. OUROUSSOFF REPLIED THAT FORD SIMPLY DID NOT DO BUSINESS IN THAT WAY, AND THAT HENRY FORD'S REACTION TO MARKETING COMPANY SCHEME WAS THAT ALTHOUGH AS AN AMERICAN CITIZEN HE WOULD PREFER PAY TAXES TO USG, FROM POINT OF VIEW OF COMPANY'S FINANCE, IT MADE LITTLE DIFFERENCE WHETHER PAYMENTS WENT TO THE AMERICAN OR THE EGYPTIAN GOVT.

7. OUROUSSOFF POINTED OUT TO EL NAZER, HOWEVER, THAT CURRENT EGYPTIAN LAW, WHICH REQUIRED FIFTY-ONE PERCENT EGYPTIAN OWNERSHIP OF BUSINESS ENVMUTUES ESTABLISHED OUTSIDE FRAMEWORK OF SPECIAL LEGISLATION SUCH AS LAW 43, WOULD MAKE IT VERY DIFFICULT FOR MARKETING COMPANY TO BE SET UP. EL NAZER HAD SUGGESTED THAT MARKETING COMPANY BE SET UP AS FREE ZONE OPERATION. FORD HAD ALREADY AGREED PAY TAXES ON MARKETING COMPANY'S EARNINGS, AND GOE WOULD FIND WAY TO GET ITS REVENUE DESPITE FREE ZONE STATUS. OUROUSSOFF ESTIMATED POTENTIAL TAX TAKE FOR GOE WOULD BE IN "TENS OF MILLIONS OF DOLLARS."

8. AS FINAL POSITIVE NOTE, OUROUSSOFF SAID HE HAD RECEIVED CALL FROM ADVERTISING MANAGER OF SEMI-OFFICIAL CONFIDENTIAL

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AL AHRAH NEWSPAPER, SAYING THAT JOURNAL WOULD BE HAPPY TO ACCEPT ADS FROM FORD. OUROUSSOFF HAD EARLIER QUERIED PAPER ABOUT WILLINGNESS SELL SPACE O COMPANY, AND ANSWER HAD BEEN NEGATIVE. OUROUSSOFF SAID, AND EL NAZER HAD AGREED, THAT ADVERTISING MANAGER MUST HAVE RECEIVED AUTHORIZATION FROM HIGH GOE LEVEL BEFORE MAKING OFFER. AMBASSADOR SAID HE BELIEVED IT WOULD BE WISE FOR FORD TO BEGIN IMMEDIATELY TO ADVERTISE IN AL AHRAH. THIS WOULD MAKE IT MUCH MORE DIFFICULT FOR EGYPTIANS TO DRAW BACK FROM APPROVAL OF PROJECT, AND COULD ALSO HELP "BREAK ICE" IN OTHER ARAB COUNTRIES WHERE PAPER WAS WIDELY READ.

9. COMMENT: WHILE ISSUES IN FORD CASE NOT YET ENTIRELY RESOLVED, PROJECT APPEARS TO BE ON WAY TO REALIZATION. SEPTEMBER 10 WILLIAMS/FREDERICKS VISI APPARENTLY WILL TAKE PLACE UNDER MOST FAVORABLE AUSPICES EVER. EILTS

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